

Message Text

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 4152

AMCONSUL MEDAN

AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 5673

EO 11652: GDS

TAGS: EAGR EIND ID

SUBJECT: FERTILIZER PRICE REDUCTION

BEGIN UNCLASSIFIED

1. SUMMARY: GOI HAS ANNOUNCED LOWER FERTILIZER PRICES TO ENCOURAGE SALE OF LARGE EXCESS SUPPLIES IMPORTED IN 1974-75 AND TO BOOST FOOD PRODUCTION END SUMMARY.

2. MINISTER OF ECONOMY WIDJOJO ANNOUNCED TO PRESS APRIL 26 THAT, EFFECTIVE MAY 1, UREA AND TSP FERTILIZER WILL BE SOLD TO ALL USERS AT OFFICIAL FIXED PRICE OF RUPIAH 80/KILO (\$200/TON). FORMERLY, ONLY FARMERS ELIGIBLE FOR GOVERNMENT'S CONCESSIONAL "BIMAS" CREDITS WOULD BUY FERTILIZER AT THIS PRICE. ALL OTHER USERS PAID RUPIAH 120 FOR UREA/TSP. (ONE RESULT OF PRICE DIFFERENTIAL WAS THAT BIMAS BUYERS OFTEN RESOLD FERTILIZER TO NON-BIMAS BUYERS.) MINISTER OF AGRICULTURE THOYIB ANNOUNCED APRIL 27 THAT PRICE FOR DAP WILL BE RP. 110 AND NPK RP. 80/KILO.

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3. WIDJOJO SAID EXTENSION OF RP. 80/KILO FOR UREA/TSP

TO ALL USERS MADE POSSIBLE BY LARGE EXCESS STOCKS NOW IN STORAGE, MUCH OF WHICH GOI IMPORTED IN 1974-75. THOYIB SAID RESERVES ARE 1.5 MILLION TONS UREA, 635,000 TONS TSP/DAP, AND 30,000 TONS NPK. GOI JOPE'S NEW LOWER PRICE WILL MOVE SURPLUS--A CONSIDERABLE PORTION OF WHICH WAS STORED OUTSIDE LAST YEAR FOR LACK OF WAREHOUSE SPACE--TO PREVENT FURTHER LOSSES FROM EXPOSURE AND DETERIORATION.

4. WIDJOJO AND THOYIB ALSO EXPLAINED NEW LOWER PRICE WILL HELP BOOST PRODUCTION OF NON-BIMAS FOOD CROPS AND PRODUCTS OF SMALL HOLDER AND LARGE SCALE PLANTATIONS.

5. WIDJOJO SAID DISPOSAL OF FERTILIZER STOCKS ALSO NECESSARY BECAUSE DOMESTIC PRODUCTION IS EXPECTED TO INCREASE IN 1977. HE SAID PUSRI I AND II PLANTS IN PALEMBANG, SOUTH SUMATRA, AND PETROKIMIA PLANT IN CRESIK, EAST JAVA, NOW PRODUCE ANNUALLY 100,000 TONS, 380,000 TONS, AND 45,000 TONS RESPECTIVELY. (NOTE: THESE FIGURES VARY SLIGHTLY FROM OTHERS AVAILABLE TO EMBASSY.) AND OTHER NEW PLANTS WILL COME ON STREAM AS FOLLOWS: PUSTRI III, APRIL 1977 WITH ANNUAL CAPACITY OF 570,000 TONS UREA; PUSRI IV, APRIL 1978, 570,000 TONS UREA; KUJANG PLANT, CIKAMPEK, WEST JAVA, JANUARY 1979, 570,000 UREA; AND GRESIK PLANT, JANUARY 1979, 330,000 TONS TSP. (TOTAL DOMESTIC CAPACITY IN 1979, USING THESE FIGURES, WILL BE 2,565,000 TONS.)
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6. COMMENT: EVEN AT RP. 80/KILO (\$200/TON) FOR UREA AND TSP, INDONESIAN USERS WILL BE PAYING TWICE CURRENT LOW WORLD MARKET PRICE OF ABOUT \$100/TON. GOI WHICH PAID FROM \$250-400/TON FOR MUCH OF SURPLUS IT NOW HOLDS AT ESTIMATED COST OF WELL OVER \$1 BILLION, IS REPORTEDLY UNWILLING TO ABSORB GREATER LOSS IN THIS FERTILIZER BY SELLING AT CURRENT WORLD PRICE. ALSO, INDONESIAN INTERESTS INVOLVED IN MARKETING AND DISTRIBUTION HAVE ARGUED THAT THEY REQUIRE A 100 PERCENT MARKUP OVER WORLD MARKET PRICES (OR DOMESTIC PRODUCTION PRICE WHICH IS ABOUT \$100/TON) TO COVER COSTS OF GETTING FERTILIZER TO USERS. SINCE THIS MARKUP GREATLY EXCEEDS ANY REASONABLE ESTIMATE OF ACTUAL
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COSTS, SUBSTANTIAL PROFITS AND UNOFFICIAL COMMISSIONS ARE PRESUMABLY INVOLVED.

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